

TENNESSEE EDUCATION LOTTERY CORPORATION

**Funding Board
December 8, 2010**

**ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2011, 2012, 2013, 2014 and 2015**

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2011

SUMMARY

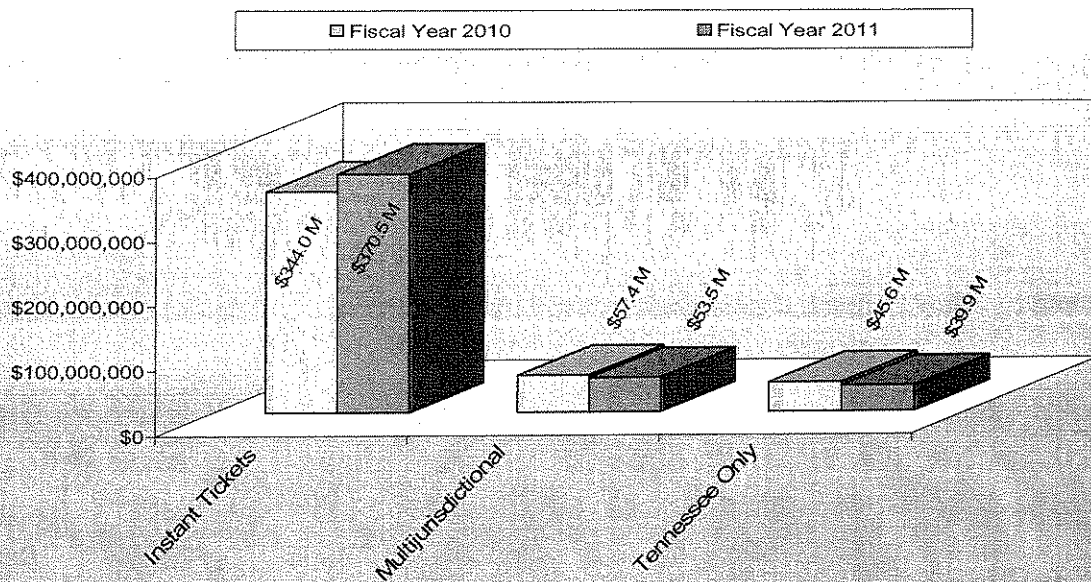
	Preliminary YTD through 11/30/10	Fiscal Year 2011 Approved Budget	Fiscal Years 2011 Low Range	Fiscal Years 2011 High Range
Lottery Proceeds				
Sales:				
Instant Games	\$ 370,527,000	\$ 912,271,000	\$ 895,500,000	\$ 921,430,000
On-line (Drawing-based) Games	93,423,000	261,350,000	242,500,000	252,500,000
Gross Ticket Sales	\$ 463,950,000	\$ 1,173,621,000	\$ 1,138,000,000	\$ 1,173,930,000
Less: Tickets Provided as Prizes	(33,628,000)	(79,885,000)	(75,785,000)	(78,718,000)
Net Ticket Sales	\$ 430,322,000	\$ 1,093,736,000	\$ 1,062,215,000	\$ 1,095,212,000
Other Revenues	1,846,000	3,788,000	3,788,000	3,788,000
Total Proceeds	\$ 432,168,000	\$ 1,097,524,000	\$ 1,066,003,000	\$ 1,099,000,000
Expenses:				
Direct Expenses:				
Prize Winnings	\$ 270,222,000	\$ 686,330,000	\$ 665,846,000	\$ 687,788,000
Retailer commissions	30,282,000	76,602,000	73,970,000	76,305,000
Vendor Fees	9,291,000	23,341,000	22,760,000	23,480,000
Direct Expenses	\$ 309,795,000	\$ 786,273,000	\$ 762,576,000	\$ 787,573,000
Non Direct Expenses	12,417,000	31,427,000	31,427,000	31,427,000
Total Expenses	\$ 322,212,000	\$ 817,700,000	\$ 794,003,000	\$ 819,000,000
Lottery for Education Proceeds	\$ 109,956,000	\$ 279,824,000	\$ 272,000,000	\$ 280,000,000
After-School Programs Funding	\$ 3,936,000	\$ 12,000,000	\$ 12,000,000	\$ 13,500,000
Total Education Funding	\$ 113,892,000	\$ 291,824,000	\$ 284,000,000	\$ 293,500,000

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FISCAL YEAR ENDING JUNE 30, 2011

	<u>As of 11/30/10</u> <u>(in millions)</u>		<u>As of 11/30/09</u> <u>(in millions)</u>	
INSTANT GAMES	\$ 370.5	80 %	\$ 344.0	77 %
MULTIJURISDICTIONAL				
Powerball	38.3	9 %	57.4	13 %
Mega Millions	15.2	3 %	-	-
TENNESSEE ONLY				
Cash 3	23.8	5 %	23.3	5 %
Cash 4	10.4	2 %	10.6	2 %
Tennessee Cash	3.2	.6 %	-	-
Pick 5	2.5	.4 %	4.9	1 %
Lotto Plus	-	-	6.8	2 %
TOTAL	\$ 463.9		\$ 447.0	
Weekly Average Sales	\$ 21.2		\$ 20.5	

**Tennessee Education Lottery
Sales by Product Comparison**

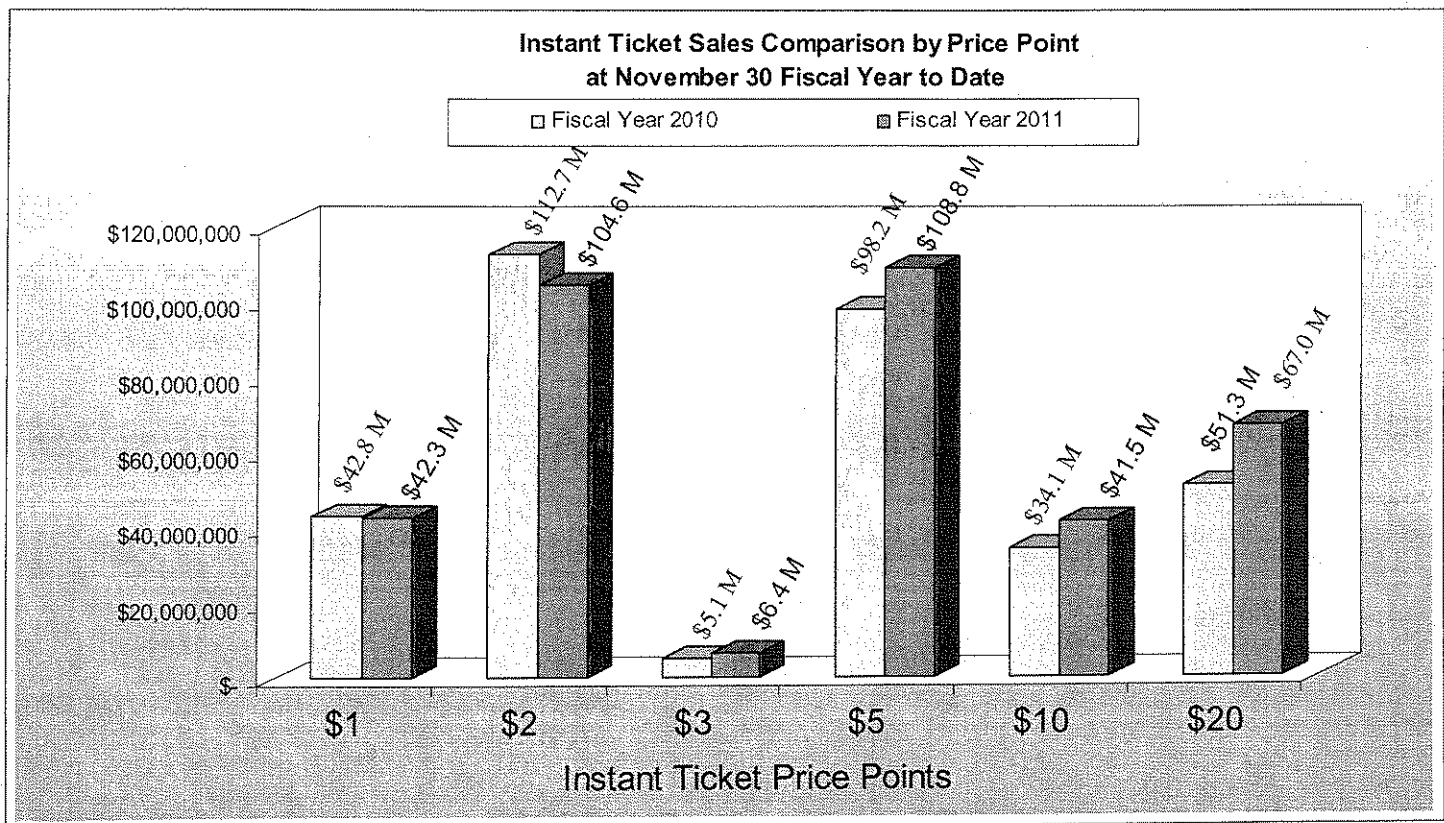


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FISCAL YEAR ENDING JUNE 30, 2011

Instant Games

- Instant Ticket Games account for 80% of total sales in fiscal year 2011, compared to 77% in fiscal year 2010.
- Sales year to date have averaged \$16.9 million a week, representing a 8.2 % increase over the same period in fiscal year 2010.
- TEL expects fiscal year average sales growth of 4% to 5%.
- Growth of instant ticket sales continues to be driven by higher price point games.
- TEL's launch of Millionaire Jumbo Bucks, a \$20 price point game, in February 2010 aided in sustaining the instant ticket growth we experienced in fiscal year 2010 and through fiscal year 2011 to date.
- TEL continues to launch tickets in the \$5 and \$10 price points in fiscal year 2011 with the intention of expanding our player base. These tickets include Tennessee Titans (\$5), Trucks and Bucks (\$5), Monopoly (\$5) and Lottery Tennessee Black (\$10).
- TEL plans to launch additional higher price point games through the rest of fiscal year 2011, including a \$20 price point game in February 2011.
- Instant Games' average prize payout percentage of 66.4% is relatively consistent with the same period last fiscal year.

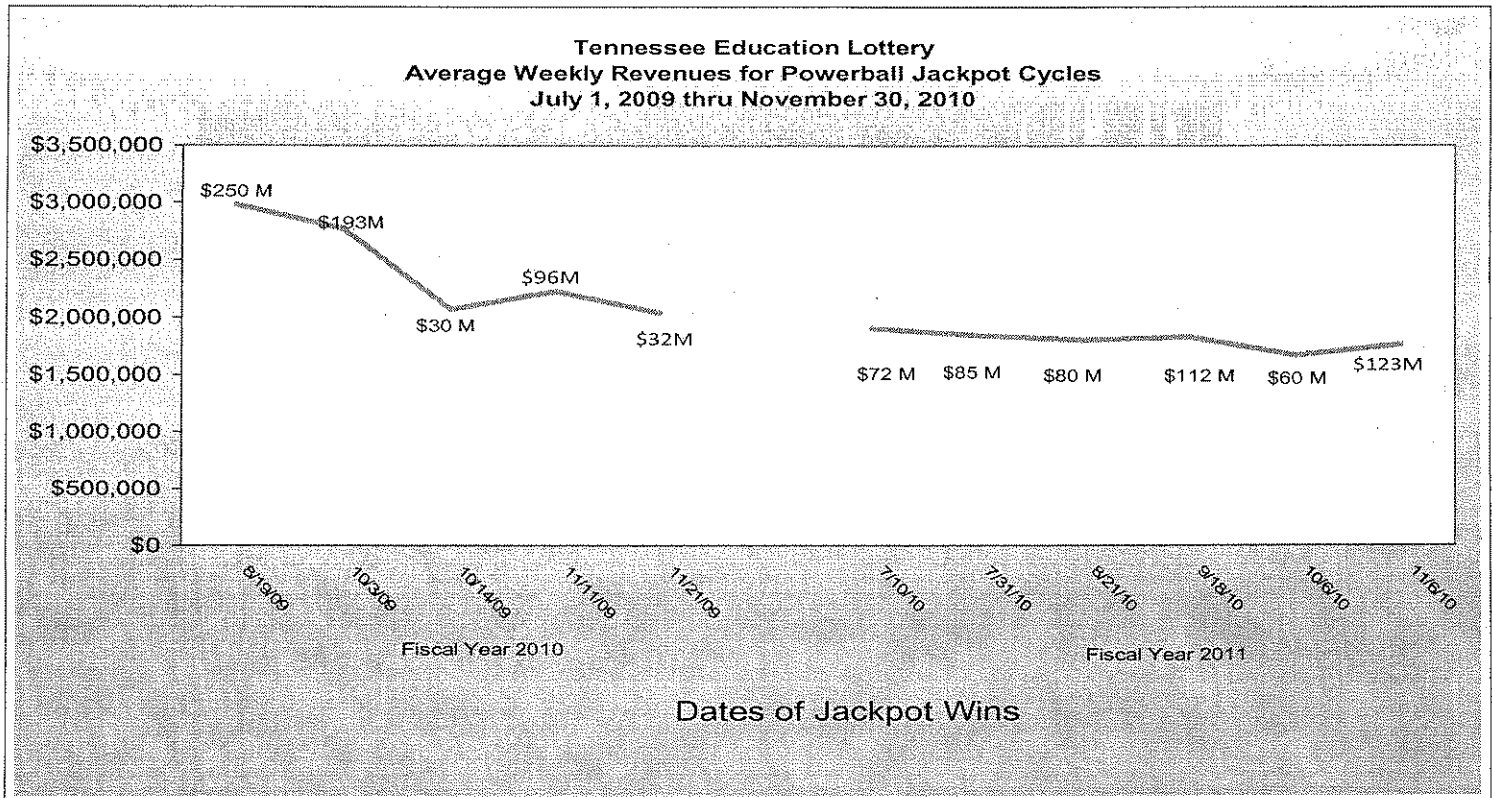


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Multijurisdictional (Drawing-based) Games

- TEL currently sells two multijurisdictional games, Powerball and Mega Millions. Powerball is drawn on Wednesday and Saturday evenings. Mega Millions is drawn on Tuesday and Friday evenings.
- The sales of both games are directly impacted by the size of jackpots.
- Current year Powerball sales of \$38.3 million are significantly down compared to the same period in the prior year. This decrease is directly related to the lower jackpots we have experienced in fiscal year 2011.
- In fiscal year 2010, Powerball experienced jackpot cycles of \$250 million and \$193 million through November 30, 2009. To date in fiscal year 2011, TEL has yet to experience a large jackpot cycle which has directly affected sales as indicated in the chart below.
- Fiscal year 2011 sales projection of \$126 million includes a Powerball jackpot cycle in the \$250 to \$300 million range.



- On January 31, 2010, TEL launched Mega Millions to replace Lotto Plus, an in-state lotto style game.
- Current year Mega Millions sales of \$15.2 million through the first five months of fiscal year 2011 are \$8.4 million higher than Lotto Plus for the same period prior year.
- Fiscal year 2011 projections for this game are \$40 million in sales, which we are currently on target to reach as of November 30, 2010.

TENNESSEE EDUCATION LOTTERY CORPORATION ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

FISCAL YEAR ENDING JUNE 30, 2011

Tennessee Only (Drawing-based) Games

Overall sales of \$39.9 million for Tennessee only drawing based games through the first five months of fiscal year 2011 are down \$5.7 million compared to prior year.

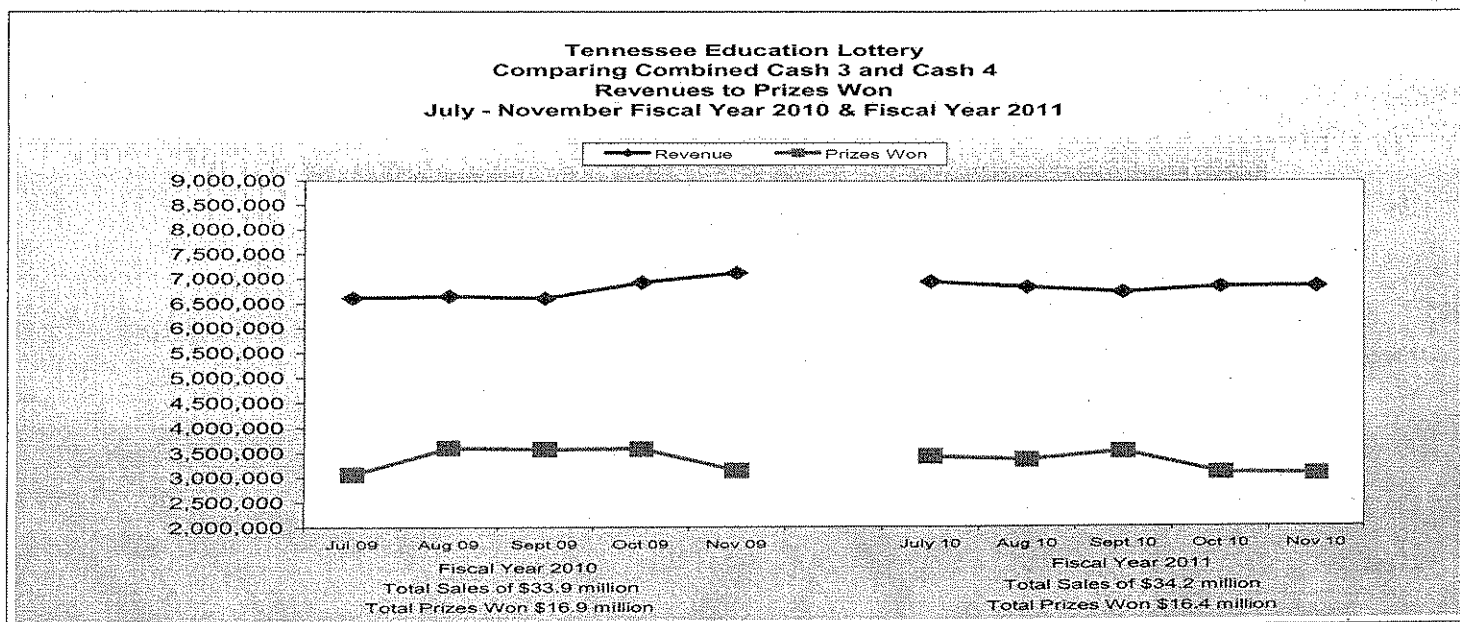
The decline is related primarily to the ending of Lotto Plus, due to declining profitability of the game, and lower Pick 5 jackpots. TEL ended Pick 5 on October 1, 2010 and launched Tennessee Cash on October 3, 2010 as its replacement.

Tennessee Cash

- Tennessee Cash is a drawing-based cash jackpot game available only in Tennessee.
- Expected jackpots for this game should average between \$350 and \$400 thousand. Tennessee Cash has generated two large jackpot wins of \$350 thousand on October 18, 2010 and \$687 thousand on November 29, 2010.
- Sales for Tennessee Cash are \$3.2 million since launch compared to \$1.8 million for Pick 5 for the same period prior year. This represents an increase of over 78 % in gross revenues.

Cash 3 and Cash 4

- Cash 3 and Cash 4 are daily games drawn twice daily six (6) days a week, and once on Sunday.
- As of 10/31/10, combined Cash 3 and Cash 4 sales are up 1 % compared to the same period in the prior year.
- Sales for these games typically increase or decrease in proportion to the prizes won, over time.



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Lottery for Education Proceeds

- \$109.9 million as of 11/30/10
- \$108.9 million as of 11/30/09

After-School Program Proceeds

- \$3.9 million as of 11/30/10
- \$2.2 million as of 11/30/09
- Represents actual/realized unclaimed monies
- Significantly impacted by timing of instant game closings, and large online (drawing-based) game prizes not claimed

Direct Gaming-Related Expenses

- Aggregate Prize Expense for Instant Games estimated at **66.6%** for fiscal year 2011.
- Aggregate Prize Expense for Online (drawing-based) Games estimated at **50.0%** for fiscal year 2011.
- Retailer sales commissions are **6.5%** of gross sales.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.2%** for online games.

Non-Direct Expenses

- Advertising is estimated at **\$ 10.6 million** or **.9%** of gross sales for fiscal year 2011.
- Other Gaming is estimated at **\$ 4.6 million** or **0.4%** of gross sales for fiscal year 2011.
- General and Administrative is estimated at **\$ 16.2 million**, or **1.4%** of gross sales for fiscal year 2011.

**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEARS ENDING JUNE 30, 2012, 2013, 2014 and 2015

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Gross Sales	\$1,172 - \$1,209 Million	\$1,207 - \$1,245 Million	\$1,243- \$1,282 Million	\$1,280- \$1,320 Million
Total Lottery Proceeds	\$1,097 - \$1,132 Million	\$1,130- \$1,166 Million	\$1,163- \$1,199 Million	\$1,198- \$1,237 Million
Lottery for Education Proceeds	\$275 -\$283 Million	\$278 -\$286 Million	\$281 -\$288 Million	\$284 -\$292 Million
After-School Programs Funding	\$13- \$14 Million	\$14 - \$15 Million	\$14 - \$15 Million	\$14 - \$15 Million
Total Education Funding	\$288 - \$297 Million	\$292 - \$301 Million	\$295 - \$303 Million	\$298 - \$307 Million

TEL's projected growth in Fiscal Year 2011 is approximately 3% in gross sales and approximately 1 % in net lottery proceeds, resulting primarily from instant ticket growth and multi jurisdictional jackpot games.

TEL's four-year average sales growth was 3% through fiscal year 2010. The four-year average proceeds growth was 1% through fiscal year 2010.

Sales growth for the lottery industry over the prior four (4) fiscal years was 1.3%. Beneficiary funding for the lottery industry experienced annual growth of .4 % over the last four (4) fiscal years.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we recommend annual sales and net proceeds growth in Fiscal Years 2012, 2013, 2014 and 2015 of **3% and 1%**, respectively.

After School Proceeds

After School Proceeds are based upon historical prize claim experience for Tennessee. The average expected unclaimed prizes represent approximately 2 % of projected available prizes.